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SUBJECT: PRESIDENT GARCIA'S FIRST MESSAGE TO THE NATION

Sensitive But Unclassified, Please Handle Accordingly.

Summary

¶1. (SBU) On 7/28 Alan Garcia Perez was sworn in as President and delivered his first message to the nation. Running an hour and a half, the President put forward an overlong list of initiatives and specific policy recommendations. Garcia focused on actions to help the 13 million Peruvians in poverty. The five main themes of his plan were: reconstruction of the state; job creation; labor rights; policies that favor women, youth, and children; and citizen security. He pushed government austerity, including measures to reduce officials' salaries and their international travel. These were coupled with proposals for significant infrastructure investments, including clean water, roads, and irrigation. Garcia said he would decentralize decision making and project implementation. He pledged to work for South American integration, arguing that regional trade blocs were needed to defend people against the "advance of globalization."

¶2. (SBU) Garcia made some populist flourishes. He stated that the "Washington consensus" had passed into history (even as his own rhetoric about austerity, state efficiency and promoting market-based investment paralleled its tenets). He sometimes took seemingly tough poses on issues (asking for more money for local investment from mining companies, for example) that are, in fact, pre-cooked. More importantly, it is far from clear that the austerity measures and redirected expenditures announced by Garcia can pay the bill for the tax exemptions and spending initiatives that he presented. End Summary.

The Latin American Consensus

¶3. (U) Alan Garcia opened his speech by stating that "the Washington Consensus" had become exhausted, and had to be replaced by a "Latin American Consensus" that would emphasize effective, efficient state action to protect citizens and regional unity to head off the possible negative effects of globalization. He then laid out a long list of initiatives and specific policies to promote change in essential areas: reconstruction of the state; job creation; labor rights;

policies that favor women, youth, and children; and citizen security.

State Reform

¶4. (U) Garcia emphasized the need for government reform. He organized his ideas around several key themes:

--Austerity: Garcia announced that he would cut his Presidential budget and staff in half, reducing his presidential salary by 60 percent. He asked Congress to reduce its expenses by a third. He pledged to close six embassies as well as make other reductions. For every cut, Garcia identified specific projects (water, rural electrification, school improvements) in needy areas that would benefit from the redirected funds.

--Administrative Reform: Garcia proposed a common electronic state purchasing program to economize on state services and eliminate corruption.

--Decentralization: Garcia pledged to give more resources and decision-making authority to regional and municipal governments.

--Moral Responsibility: The President proposed judicial reform and promised to appoint people outside his own APRA party as Anti-Corruption Czar and as Comptroller.

Job Creation

¶5. (U) Garcia proposed creating jobs through attracting investment and through opportunity-creating government programs. Among points he made:

-- The President identified the following as critical job-creating initiatives: the Callao port project to open Pacific markets, a steel plant in Chimbote, and the Inter-Oceanic Highway which link Brazil to the Pacific Coast via southern Peru.

-- He called for the creation of a working group that would negotiate additional contributions from mining companies for local infrastructure.

-- He pledged to promote agriculture through the Agrarian Bank and via increased technical assistance from the Ministry of Agriculture.

-- Garcia proposed establishing a tax-free industrial, tourist, and commercial zone in Puno, a key area in the south where Humala had strong support.

Labor and Social Rights

¶6. (U) Garcia put forward a number of proposals to protect workers and citizens.

-- The Labor Ministry will increase the number of inspectors and enforce the eight-hour work day and requirements for paid overtime. The President criticized companies that misuse temporary service contracts (temporary workers) and pledged to enforce laws against abuses in this area.

-- Garcia identified access to water as a social right. He said that his "Water for All" ("Agua para Todos") program would provide water and sewerage in the next five years to half of the estimated 5 million Peruvians who lack these basic services.

¶7. (U) Garcia put forward a vision of a state that would protect the vulnerable, including measures to promote gender equality, enhance youth opportunities and protect citizens from sexual predators and criminals.

-- Garcia highlighted the number of women in his cabinet and mentioned gender equity issues, including equal pay, mother-friendly work places, and actions to eliminate domestic violence.

-- The President pledged to end sex tourism and to amend the constitution to increase drastically the punishments for repeat child molesters.

-- Garcia pledged to enhance opportunities for youth participation in municipal government and proposed special credit opportunities for young business people.

-- The President called for 20,000 new Police Officers.

Counternarcotics

¶8. (SBU) Garcia did not present a comprehensive counter-narcotics plan, but he did touch on CN issues. He acknowledged that drug trafficking has increased and that the government must be firm ("like Colombia") with international cartels, including accelerating extraditions. As a test of decentralization, Garcia pledged to hand over the management of ENACO, the para-statal company that buys and sells licit coca, to Cusco's Regional Government. (Note: Most licit coca is grown in Cuzco, though the majority of leaf grown in that department goes to narcotrafficking. End Note.) Finally, the President identified narcotrafficking, along with delinquency and kidnapping, as threats to citizens' security.

Comment

¶8. (SBU) Garcia's speech was not bad, but in our view he missed an opportunity to hit one out of the ball park. Instead of focusing on big themes -- where he is at his rhetorical best -- the President ran through a laundry list of detailed initiatives, at times providing program-specific information one would expect from a Vice Minister rather than a President.

¶9. (SBU) Garcia's comment about the "exhaustion" of the Washington Consensus contained more than a dose of irony. His own proposals, with their emphasis on investment, state efficiency and austerity, incorporated many elements that international financial institutions have been pushing for years. If these are pillars of his new Latin American Consensus, then we are all for them.

¶10. (SBU) In a similar vein, the President sometimes struck populist poses (calling for increased spending by mining companies in local communities or re-negotiating gas prices with Camisea) on issues that have been quietly pre-cooked. (The mining companies are already pulling together resources for a social fund and Camisea's operators have let us know their willingness to be flexible on domestic gas prices.)

¶11. (SBU) Garcia's call to austerity is admirable. Nonetheless, we are dubious that austerity and redirected spending can pay for the big ticket infrastructure items the President put forward. Garcia has appointed a reliable Finance Minister in Luis Carranza, but the new administration still needs to do the math on some of its proposals.

¶12. (SBU) Garcia might also have been more graceful in reference to the Toledo Administration. For example, he attributed the drop in poverty during his predecessor's term entirely to out-migration, which he said was impelled by

economic hardship.
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